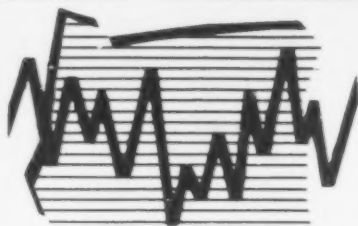


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2/15/89



OREGON LABOR TRENDS

JANUARY 1989

—W.E. Hunter, Administrator • State of Oregon • EMPLOYMENT DIVISION • Department of Human Resources—

INDICATORS

UNEMPLOYMENT RATE

Oregon (Seas Adj.)

Dec.	1988	5.1
Nov.	1988	5.6
Dec.	1987	5.6

United States (Seas Adj.)

Dec.	1988	5.3
Nov.	1988	5.4
Dec.	1987	5.8

WAGE AND SALARY EMPLOYMENT INDEX

Oregon (1977=100)

Dec.	1988	122.2
Nov.	1988	122.4
Oct.	1988	123.4
Sept.	1988	124.3
Aug.	1988	124.5

PRODUCTION WORKER AVERAGE HOURLY EARNINGS

Oregon

Nov.	1988	\$10.70
Oct.	1988	\$10.66
Nov.	1987	\$10.63

PRODUCTION WORKER AVERAGE WEEKLY HOURS

Oregon

Nov.	1988	39.2
Oct.	1988	40.3
Nov.	1987	39.7

CONSUMER PRICE INDEX (CPI)

1982-84 = 100

ALL URBAN CONSUMERS

Portland-Vancouver

Jan.-June 1988	113.6
Yearly change	3.4%

Annual Average 1987	110.9
Yearly change	2.5%

United States

Dec. 1988	120.5
Yearly change	4.4%

Annual Average 1987	113.6
Yearly change	3.6%

Portland Hotline 221-4132

UNEMPLOYMENT RATE LOWEST IN 16 YEARS

Linda Burgin

In December, Oregon's seasonally adjusted unemployment rate fell to 5.1 percent, the lowest reported rate since the Employment Division started seasonally adjusting the rate in 1972. It was also .2 percentage points below the U.S. unemployment rate reported for December, the first month since December 1987 that Oregon's rate fell below the national rate.

The two key variables in the unemployment rate calculation decreased in December:

1. Total unemployment was down from November 1988 by about 1,000. Not since 1968 has a decline in unemployment occurred at this time of the year in Oregon. Therefore seasonal adjustment factors (which are based on historical records in which an increase in unemployment is normal at this time of year) translated the 1,000 drop into a large unemployment rate decline.

2. The size of the total civilian labor force decreased by 3,200 from November to December.

New Employment Division records have been set many times in the last year. Oregon's nonfarm wage and salary employment index is a good example. This index, based on a monthly survey of employers, is total nonagricultural wage and salary employment, seasonally adjusted, and indexed to 1977. The index was 124.5 in December, breaking the November record with a new 'highest level ever recorded'. We can interpret the index to mean that Oregon now has 24.5 percent more jobs than in 1977. December's index was 5.7 points higher than the index reported for December 1987.

SEASONALLY ADJUSTED UNEMPLOYMENT RATES*
OREGON and THE UNITED STATES: 1980 to 1989



*Civilian Labor Force Only

The Employment Division received 6,966 job openings in December, 709 more than for the same period last year. Job placements totalled 6,242 in December, 687 more than a year ago. Comparing December 1988 with December 1987, the number of weeks of unemployment compensation that were claimed decreased by 23 percent, or 38,069 weeks...and the unemployment insurance funds continue to grow as economic security for the unemployed workers of the future. (Where have all the unemployed workers gone? To work!...and it's great!)

As the supply of available workers diminishes in this tight labor market, it seems probable that wages will have to increase in order to attract workers, particularly in entry level, minimum wage jobs.

Low unemployment rates and steadily increasing employment levels in many economic sectors are an indication that the Oregon economy continues to improve. As the supply of available workers diminishes in this tight labor market, it seems probable that wages will have to increase in order to attract workers, particularly in entry level, minimum wage jobs.

Turning to the current employment statistics, December was a very good month for construction. All components of the construction industry outperformed expectations last month, when 300 construction jobs were created. Normally, the state loses around 2,200 construction jobs in December. Overall, the construction industry ended its best year since 1981. A total of 38,800 people held construction jobs in December.

That's an increase of 5,000 jobs from December 1987. Annual average employment in this industry stands at 37,500, a strong 3,000 gain over the 1987 level.

The frantic pace of the holiday season translated into new hires for many retailers as general merchandise, apparel & accessory, and furniture & home furnishings stores combined to add more than 7,000 jobs in the past three months, a 30 percent increase over seasonal hiring in the past five years. Trade as a whole (wholesale and retail) added 3,100 jobs in December alone, more than twice the expected increase.

Services employment took a rare downturn in December, following a substantial increase in November when temporary help agencies hired workers for the elections. The post-election layoff was entirely responsible for the decline, as other parts of the industry performed well. The overall strength of trade and services can be gauged by the fact that, between them, the two industries have accounted for two out of every three new jobs in Oregon during the past five years.

Some job sectors lost employment in December, but most of these were expected. Much of the employment decrease in lumber & wood products was in logging, which dropped to about the same December level as it has for the past five years. In veneer & plywood, layoffs in recent months have brought the total employment level to 17,100, several hundred lower than it has been in December for the past two years. Mobile (manufactured) homes continues to strengthen and has gained 400 in 1988 (a 24 percent increase). Labor management disputes in several parts

of the state involved 700 lumber & wood products workers in December, but the number on strike in this industry will jump in January.

In other durables, the rocket launch tower modules being built near Astoria helped boost employment by 300 in fabricated structural metals. Another 300 jobs were added to blast furnaces, iron & steel foundries, which surged to 6,400, only 200 lower than the highest December (1979). Electronic equipment & supplies has been a leading industry this year, with 1,800 workers added to the payrolls in 1988, 100 of which were added in December.

An ominous cloud on the rosy Oregon horizon: the Construction Statistics Division of the Department of Commerce, Census Bureau recently reported that December housing starts in the nation were down 2% from November. The total U.S. housing starts for 1988 (1.49 million units) were the lowest reported since the end of the last recession in 1982.

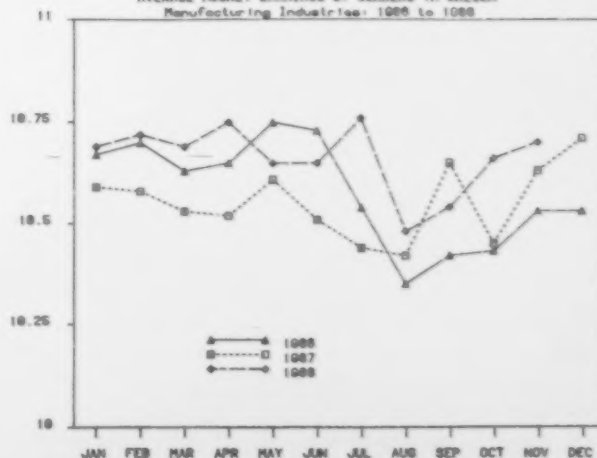
It would be great if the expected recession takes as long to reach Oregon as the current recovery did.

We hope that there will be a lag between the signs of any recession at the national level and when Oregon begins to feel the effects. It would be great if the next recession takes as long to reach Oregon as the current recovery did. Meanwhile, we are living through a wonderful time of growth in Oregon. We are probably in a period of time that we will later refer to fondly as 'the good of days.' It is a period when we don't have to search for good news—it jumps right out and dazzles us. □

SEASONALLY ADJUSTED NON-AG WAGE & SALARY EMPLOYMENT INDEXES
OREGON and the UNITED STATES: 1982 to 1988



AVERAGE HOURLY EARNINGS of WORKERS in OREGON
Manufacturing Industries: 1986 to 1988



RESIDENT OREGON LABOR FORCE

	DEC.1 1988	NOV.2 1988	CHANGE	%CHANGE	DEC.3 1987
CIVILIAN LABOR FORCE ¹	1,423,700	1,426,900	-3,200	-0.2	1,403,700
UNEMPLOYMENT	77,200	78,200	-1,000	-1.3	83,000
PERCENT OF LABOR FORCE	5.4	5.5	XXX	XXX	5.9
SEASONALLY ADJUSTED PERCENT	5.1	5.6	XXX	XXX	5.6
TOTAL EMPLOYMENT ⁴	1,346,500	1,348,700	-2,200	-0.2	1,320,700

¹Preliminary.

²Revised.

³Includes employed and unemployed individuals 16 years and older. Data are adjusted for multiple job-holding and commuting.

⁴Includes nonagricultural wage and salary, self-employed, unpaid family workers, domestics, farm workers, and labor disputants.

⁵Due to revised estimating procedures between December 1987 and January 1988, data for 1988 and that of previous years are not strictly comparable.

NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT (BY PLACE OF WORK)

INDUSTRY	DEC.1 1988	NOV.2 1988	DEC. 1987	NOV. 1988	CHANGE FROM DEC. 1987
TOTAL ¹	1,171,500	1,177,100	1,116,500	-5,800	55,000
WAGE & SALARY EMPLOYMENT INDEX ²	124.5	124.3	118.8	XXX	XXX
TOTAL MANUFACTURING	210,500	213,300	205,200	-2,800	5,300
DURABLE GOODS	154,700	155,600	151,200	-900	3,500
LUMBER & WOOD PRODUCTS	67,900	68,800	67,800	-900	100
LOGGING & SAWMILLS	34,000	35,000	34,600	-1,000	-600
VENEER & PLYWOOD	17,100	17,100	17,700	0	-600
MILLWORK & STRUCTURAL WOOD	11,100	11,000	10,300	100	800
MOBILE HOMES	1,800	1,800	1,400	0	400
OTHER WOOD PRODUCTS	3,900	3,900	3,800	0	100
FURNITURE AND FIXTURES	2,500	2,500	2,500	0	0
STONE, CLAY, GLASS & CONCRETE	3,800	3,800	3,300	0	500
PRIMARY METALS	10,600	10,400	9,700	200	900
BLAST FURNACES, IRON & STEEL	6,400	6,100	5,800	300	600
NONFERROUS METALS	4,200	4,300	3,900	-100	300
FABRICATED METALS	11,800	11,500	10,400	300	1,400
FABRICATED STRUCTURAL METALS	5,500	5,200	4,400	300	1,100
OTHER FABRICATED METALS	6,300	6,300	6,000	0	300
MACHINERY	16,400	16,400	15,800	0	600
ELECTRICAL EQUIPMENT & SUPPLIES	15,700	15,600	13,900	100	1,800
TRANSPORTATION EQUIPMENT	11,500	11,900	12,300	-400	-800
INSTRUMENTS & RELATED PRODUCTS	11,400	11,300	12,300	100	-900
MISCELLANEOUS MANUFACTURING	3,100	3,400	3,200	-300	-100
NONDURABLE GOODS	55,800	57,700	54,000	-1,900	1,800
FOOD & KINDRED PRODUCTS	21,000	23,300	20,500	-2,300	500
CANNING & PRESERVING	9,700	11,800	9,300	-2,100	400
OTHER FOOD PRODUCTS	11,300	11,500	11,200	-200	100
TEXTILE MILL PRODUCTS	1,800	1,800	1,800	0	0
APPAREL	3,200	3,200	2,800	0	400
PAPER & ALLIED PRODUCTS	8,700	8,600	9,000	100	-300
PRINTING & PUBLISHING	13,800	13,600	13,300	200	500
CHEMICALS & ALLIED PRODUCTS	2,200	2,100	2,000	100	200
PETROLEUM REFINING	400	400	400	0	0
RUBBER & PLASTIC PRODUCTS	4,300	4,300	4,000	0	300
LEATHER PRODUCTS	400	400	400	0	0
TOTAL NONMANUFACTURING	961,000	963,800	911,300	-2,800	49,700
MINING & QUARRYING	1,400	1,500	1,300	-100	100
CONSTRUCTION	38,800	38,500	33,800	300	5,000
TRANSPORTATION, COMMUNICATIONS, & UTILITIES	60,400	61,000	60,100	-800	300
TRANSPORTATION	39,000	39,500	38,900	-500	100
RAILROAD	3,800	3,900	3,800	-100	0
TRUCKING & WAREHOUSING	21,800	22,300	22,700	-500	-900
OTHER TRANSPORTATION	13,400	13,300	12,400	100	1,000
COMMUNICATIONS	12,700	12,800	12,500	-100	200
UTILITIES	6,700	6,700	6,700	0	0
TRADE	310,700	307,600	286,700	3,100	22,000
WHOLESALE TRADE	77,400	77,500	71,300	-100	6,100
DURABLE GOODS	45,800	45,000	41,700	800	3,900
NONDURABLE GOODS	31,800	32,500	29,600	-700	2,200
RETAIL TRADE	233,300	230,100	217,400	3,200	15,900
GENERAL MERCHANDISE	33,700	31,800	31,800	1,900	1,900
FOOD STORES	39,500	39,600	34,200	-100	5,300
AUTO DEALERS & SERVICE STATIONS	27,100	27,200	25,300	-100	1,800
OTHER RETAIL TRADE	133,000	131,500	126,100	1,500	6,900
FINANCE, INSURANCE, & REAL ESTATE	74,600	74,100	71,900	500	2,700
BANKING & CREDIT AGENCIES	24,100	23,900	23,800	200	300
OTHER FINANCE, INSURANCE, & REAL ESTATE	50,500	50,200	48,100	300	2,400
SERVICES	261,400	262,300	245,900	-900	15,500
HOTELS & PERSONAL SERVICES	25,600	26,100	24,800	-500	800
HEALTH SERVICES	80,300	79,800	76,200	500	4,100
OTHER SERVICES	155,500	156,400	144,900	-900	10,600
GOVERNMENT	213,700	218,800	209,600	-5,100	4,100
FEDERAL GOVERNMENT	31,200	31,100	30,400	100	800
STATE GOVERNMENT	59,300	60,300	58,400	-1,000	900
EDUCATION	25,300	25,700	25,200	-400	100
OTHER STATE	34,000	34,800	33,200	-800	800
LOCAL GOVERNMENT	123,200	127,400	120,800	-4,200	2,400
EDUCATION	79,000	81,000	77,400	-2,000	1,600
OTHER LOCAL	44,200	46,400	43,400	-2,200	800
LABOR - MANAGEMENT DISPUTES	1,200	1,200	100	0	1,100

¹Preliminary.

²Revised.

³Includes full and part-time nonfarm wage and salary workers in pay periods including the 12th of the month. Proprietors, self-employed, private household workers and armed forces excluded. Note: Estimated in cooperation with the U.S. Bureau of Labor Statistics and Employment and Training Administration. All data are based on the 1972 Standard Industrial Classification (SIC) codes as amended by the 1977 supplement.

⁴Total nonagricultural wage and salary employment, seasonally adjusted, and indexed to 1977. Data on the earlier index (1972 = 100) can be converted to the 1977 base period by multiplying by a factor of .8264, the ratio between 1972's Annual Average Employment (774,300) and that of 1977 (936,900).

NEW UNEMPLOYMENT ESTIMATING METHOD

Fred Klatz

The system which produces the unemployment rate for Oregon will soon undergo a substantial change. This change will become effective next month with the release of January 1989 labor force estimates. In addition, historical monthly labor force, employment and unemployment estimates at the state level only will be revised from 1978 through 1988. Since this is part of a procedural change at the national level and will be implemented for most states in the country, it isn't unique to Oregon.

BACKGROUND

Until now, Oregon and most other states used a building block estimating procedure which combined employment and unemployment data from different sources to generate a total estimate. This procedure was especially dependent on administrative data from the state unemployment insurance system. Many viewed this as a shortcoming since unemployment insurance laws and coverage vary from state to state. This variation made it difficult to develop meaningful comparisons between state unemployment rates. Until the federal government began distributing federal funds among states based in part on state unemployment levels, this anomaly was just an irritant. Once the distribution of federal monies was at least in part determined by state unemployment, it became very important to accurately compare state unemployment rates.

At that time, the results from a large monthly household survey conducted across the nation were used as a control for each state. This allowed reasonable comparisons to be made between state unemployment rates and promoted a more equitable distribution of federal dollars.

There were some shortcomings associated with the use of this survey. In a state such as Oregon which has a small population, the national survey doesn't have enough households in its sample to use the monthly results of the survey directly. Therefore, data from the survey are averaged for the most recent six month period and combined with similar data from the building block procedure to produce an estimate for the state.

Even though this combined procedure produced better estimates than the building block method alone, it was still subject to criticism. One criticism was that it wasn't possible to measure the reliability of the monthly estimates since the procedure used many sources of data. Another was that the procedure

was very dependent on unemployment insurance data, but the proportion of the unemployed covered by unemployment insurance was declining. For these reasons it was felt that a completely new approach should be tried to develop a better way of estimating unemployment at the state level.

NEW METHOD

The Levitan Commission, which was appointed by congress to conduct a review of the unemployment estimating system for the nation in the late 1970s, recommended that a statistical procedure called regression analysis be seriously studied as a possible means of producing better unemployment estimates for less populous states. This technique relies on the idea that an analysis of historical data can often reveal certain elements in a state's economy which, when properly combined, can provide accurate estimates of employment and unemployment for the entire economy. The Bureau of Labor Statistics was given the responsibility for doing the required research and development of the specific equations for each state. After several years of work the Bureau produced the necessary equations and the process of field testing the new methodology began. After two years of testing in the field and incorporating the modifications based on these field tests, the states will begin using the new methodology in February 1989. Even though this is a national program, some states will not use this new estimating technique. The 11 most populous states, which have sufficient

household samples, will continue to produce their unemployment estimates directly using the results of the national household survey. The 39 states, such as Oregon, which do not have large enough samples to use monthly survey data directly, will begin using this new estimating procedure.

We hope that this new procedure will overcome many of the problems which beset the old system. One important aspect of the new system is that it can automatically adjust itself to structural changes in the economy. That is, as the economy of Oregon changes, so will the equations used in the state's estimating procedure.

The story doesn't stop here, however. One of the objectives of future work will be to develop some measure of reliability of the estimates produced by this new methodology. Also, the Bureau of Labor Statistics' research staff will attempt to extend this new procedure to sub-state estimates. In addition, this new procedure is subject to review. If better data is obtained or new types of data found, the estimating procedure will be revised.

SUMMARY

In February 1989, thirty-nine states and the District of Columbia will begin using a new unemployment estimating procedure. This new procedure is based on an analysis of each state's historical employment and unemployment characteristics to develop equations which will produce employment and unemployment estimates for each state. □

WARN-A NEW LAW

Kimberly Dunn

(Editor's note: Kimberly Dunn is a marketing/communications analyst with the Job Training Partnership Act Administration, Oregon Economic Development Department.)

The Worker Adjustment and Retraining Act (WARN) was enacted August 4, 1988, and becomes effective February 4, 1989. The Act states that "an employer shall not order a plant closing or mass layoff until the end of a 60-day period after the employer serves written notice of such an order;

the unit of local government within which such closing or layoff is to occur."

Written notice under WARN may be required as early as December 6, 1988, for plant closings or mass layoffs beginning February 4, 1989.

Notification is mandatory for businesses which meet certain conditions defined in the Act. The basic conditions include:

- the business has 100 or more employees;
- the permanent or temporary closing results in the loss of employment for 50 or more employees;
- a "mass layoff" of at least one third of the employees, or 500 workers, whichever is less.

1. to each representative of the affected employees as of the time of the notice or, if there is no such representative at that time, to each affected employee;
2. to the State Dislocated Worker Unit and the chief elected official of

Penalties for violations of the notice requirement are provided in the law. WARN states that an employer ordering a plant closing or mass layoff without giving proper written notice "shall be liable to each aggrieved employee who suffers an employment loss as a result of such closing or layoff". Available penalties defined include back pay and benefits (including the cost of medical expenses incurred during the employment loss which would have been covered under an employee benefit plan if the employment loss had not occurred) for each day of violation up to the full 60 days.

The purpose of WARN is to allow time for employees, communities and job training programs to respond positively to shut-downs and plant closures.

The purpose of WARN is to allow time for employees, communities and job training programs to respond positively to shut-downs and plant closures. The job training programs available to benefit dislocated workers have been enhanced through the passage of a companion bill, the Economic Dislocation and Worker Adjustment Assistance (EDWAA) Act. This Act provides for a rapid response to workers with retraining, support and employment assistance. It also provides for the State Dislocated Worker Unit to marshal Economic Development resources to help the employer explore ways to avert unnecessary closures. EDWAA will be described in more detail in upcoming issues of *Oregon Labor Trends*.

The State Dislocated Worker Unit has the responsibility to receive early warning of plant closures under WARN,

and to administer the provisions of EDWAA. Since the services provided by EDWAA are part of a system designed to smooth the transitions that accompany any plant closures or layoffs, all businesses facing closure or layoff are encouraged to contact the Dislocated Worker Unit, even if their size and conditions do not mandate their compliance with WARN.

For more information, call the State Dislocated Worker Unit at (503) 373-1995.

Official notice of plant closures or mass layoffs should be mailed to:

The State Dislocated Worker Unit
c/o JTPA Administration
Economic Development Dept.
155 Cottage St. NE
Salem, Oregon 97310 □

AVERAGE HOURS AND EARNINGS OF OREGON INDUSTRIAL PRODUCTION WORKERS¹

	Average Weekly Earnings			Average Weekly Hours			Average Hourly Earnings		
	Nov. ² 1988	Oct. ³ 1988	Nov. 1987	Nov. ² 1988	Oct. ³ 1988	Nov. 1987	Nov. ² 1988	Oct. ³ 1988	Nov. 1987
TOTAL MANUFACTURING ⁴	\$419.44	\$429.60	\$422.01	39.2	40.3	39.7	\$10.70	\$10.66	\$10.63
Durable Goods	426.31	441.73	428.93	39.4	40.6	40.2	10.82	10.88	10.67
Lumber & Wood Products	420.98	447.58	429.60	38.8	40.8	40.0	10.85	10.97	10.74
Logging & Sawmills	450.43	488.31	455.04	38.4	41.0	39.5	11.73	11.91	11.52
Veneer & Plywood	416.81	436.89	421.65	39.1	41.1	40.7	10.66	10.63	10.36
Millwork & Structural	349.77	353.73	375.65	39.3	39.7	41.1	8.90	8.91	9.14
Mobile Homes	331.19	339.08	321.48	38.2	39.2	36.0	8.67	8.65	8.93
Other Wood Products	416.30	425.58	419.76	40.3	41.0	40.4	10.33	10.38	10.39
Furniture & Fixtures	325.37	357.98	379.26	37.1	38.7	38.7	8.77	9.25	9.80
Primary Metals	521.66	508.00	527.61	41.8	41.2	43.0	12.48	12.33	12.27
Fabricated Metals	391.78	386.40	372.27	40.1	40.0	39.9	9.77	9.66	9.33
Machinery (Ex Electrical)	444.96	447.41	454.01	39.8	40.6	40.5	11.18	11.02	11.21
Nondurable Goods	400.28	397.98	404.74	38.6	39.6	38.4	10.37	10.05	10.54
Food & Kindred Products	321.77	317.94	316.09	36.9	39.3	36.5	8.72	8.09	8.66
Canning & Preserving	267.46	280.76	264.08	35.9	39.6	35.4	7.45	7.09	7.46
Other Food Products	401.56	389.71	392.31	38.5	38.7	38.2	10.43	10.07	10.27
Textile Mill Products	253.74	237.35	257.72	36.3	35.8	37.9	6.99	6.63	6.80
Apparel	252.71	247.04	219.86	37.0	39.4	36.4	6.83	6.27	6.04
Paper & Allied Products	650.46	679.04	682.84	44.4	43.5	43.3	14.65	15.61	15.77
Printing & Publishing	443.80	444.83	438.00	37.2	37.1	37.5	11.93	11.99	11.68
Construction ⁴	488.72	539.94	478.83	34.2	37.6	34.9	14.29	14.36	13.72
Communications & Utilities ⁵	541.20	530.73	537.14	41.0	40.7	40.6	13.20	13.04	13.23
Trade ⁵	297.57	312.65	287.12	33.7	34.7	33.7	8.83	9.01	8.52
Wholesale Trade	395.32	417.57	387.17	37.4	38.7	37.3	10.57	10.79	10.38
Retail Trade	248.36	257.87	239.04	31.8	32.6	32.0	7.81	7.91	7.47
Banking & Insurance ⁵	334.48	358.66	332.38	37.0	38.9	37.6	9.04	9.22	8.84
State & Local Government	373.74	382.23	365.11						

¹Figures are average gross hours and earnings of full and part-time worked or paid for, including overtime and shift premium pay. Prepared in cooperation with the U.S. Department of Labor. All data are based on the 1972 Standard Industrial Classification (SIC) codes.

²Preliminary

³Revised

⁴Data for production workers only and exclude administrative, supervisory (above working foremen), technical, sales and office personnel.

⁵Data for nonsupervisory employees only, excluding proprietors and executive personnel. Data for retail trade excludes eating and drinking places.

1989 ECONOMIC OUTLOOK

Jeff Hannum

Oregon's economy, like the nation's, has displayed an uncanny ability to defy the odds over the past few years. It not only survived the stock market crash in October 1987, but it went on to post one of the best years ever in 1988, especially in terms of record high employment and low unemployment. The current economic expansion, one of the longest ever during peacetime, is now entering its seventh straight year. Although the road ahead has some big potholes, the state's economy should continue to expand in 1989. The rate of growth, however, will slow and the economic gap may widen between the more diversified metropolitan areas and rural communities dependent upon the lumber and wood products industry.

Although the road ahead has some big potholes, the state's economy should continue to expand in 1989.

To a large extent, Oregon's 1989 economic prospects are tied to the health of the national economy. In fact, a recent Federal Reserve Bank of San Francisco study found that nearly two-thirds (64%) of Oregon's economic fluctuations are linked to changes in the national economy. With this in mind, we need to first look at U.S. economic prospects and policies for 1989.

At present, the U.S. economy is operating at close to full-capacity fueled by a boom in domestic capital spending and foreign exports, coupled with still-healthy consumer spending for durable goods. Employment levels are at record

highs, the unemployment rate is at a 14 year low (5.3% in December), and the factory operating rate (84.4%) is at the highest level of the decade. Normally, this situation would have resulted in much higher inflation by now, especially since the dollar lost so much of its international value in the past several years. Instead, consumer prices (CPI-U) and producer prices (for finished goods) have risen by 4.4% and 4.0%, respectively, between December 1987 and December 1988.

There are a number of reasons why inflation has remained relatively subdued. These include increased foreign competition, over-supply of key commodities like oil, restructured and more efficient domestic industries, increased labor productivity, workers' emphasis on job security over pay increases, monetary policy restraint by the Federal Reserve, and "Black Monday's" effect on inflationary expectations. But while inflation appears to be tame at the consumer and finished goods levels, it is gaining momentum at earlier stages of processing. In addition, some of the controlling factors mentioned above have nearly run their course and labor costs threaten to jump due to worker shortages, higher employee benefit costs (especially for health insurance), and prospects for a phased increase in the minimum wage. As a result, many economists expect consumer inflation to reach 5% in 1989, the highest rate since 1982.

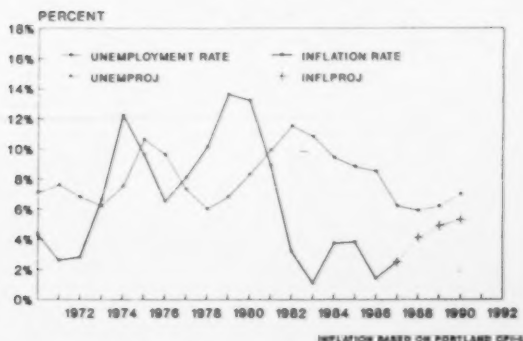
To counter inflation and prevent a boom-bust scenario the Federal Reserve began to tighten monetary policy last spring. As a result, both short

and long term interest rates have risen. Further rate increases are expected during the first half of 1989, or until economic growth slows to the Fed's desired range of between 2 and 2.5%. A softer economy would not only defuse inflation and buy more time for the current expansion, but it would also help to shrink the nation's huge foreign trade deficit by restraining demand for imports.

Now that the elections are over, we can also expect renewed efforts to reduce the federal budget deficit, considered by many to be the nation's number one problem. In 1989, this will probably focus primarily on spending cuts in both military and domestic programs. In 1990, we can expect to see higher excise taxes on such products as alcohol, tobacco and gasoline, and also some increase in corporate and personal income taxes (broader tax base, not necessarily higher tax rates). To the extent possible, tax changes should be designed to restrain consumption and increase savings and productive business investment.

Although the nation's economy will slow in 1989 and interest rates and inflation will move higher a recession is not expected, at least this year. Many economic indicators will continue to show growth, but at a reduced rate. These include total employment, retail sales, business capital investment, corporate profits, export sales, industrial production and overall growth in GNP. Higher interest rates and inflation, however, will probably take their greatest toll on the stock market and construction-related activities. U.S. housing starts, for exam-

INFLATION AND UNEMPLOYMENT RATES IN OREGON



ANNUAL EMPLOYMENT CHANGE IN OREGON (SLOWER GROWTH EXPECTED IN 1989)



1988 DATA PRELIMINARY
1989 DATA PROJECTED

ple, are likely to drop by at least 5% this year to about 1.4 million units following a 9% decline in 1988.

Reflecting all of these factors, the nation's unemployment rate has probably bottomed out and will gradually move higher throughout 1989 and 1990. Unemployment is expected to average about 5.6 to 5.8 percent in 1989, and may even move into the low six percent range in 1990. Demographic factors and continued strength in capital spending and export sales will help to cushion the rise in unemployment. This outlook, however, assumes that the rising potential for foreign trade disputes will be resolved through international cooperation and negotiation rather than protectionist trade policies.

For Oregon, the 1989 outlook also includes no recession, slower employment growth in most industries, and some increase in unemployment. While there is a good possibility that overall job growth will once again outpace the nation, the economic gap between metropolitan areas, especially Portland, and many rural areas will widen. The reason for this is that the types of industries located in the metro areas (i.e. services-producing, capital equipment manufacturing, export-related, etc.) will fare much better this year than will lumber and wood products.

The pulp and paper side of the forest products industry will continue to enjoy strong demand and healthy profits in 1989, but lumber and wood producers face a litany of problems. These include a weaker market nationally for building materials, higher production costs across the board, and a growing shortage of available timber supplies.

Of these, the timber supply squeeze is the most serious since it is both short and long term. Environmental appeals

and recent court decisions have reduced federal timber sale offerings in 1989, and record log exports from private and state-owned lands have led to reduced and more costly timber supplies for domestic mills. In addition, new management plans for the region's federal forests are likely to result in lower harvest levels during the next decade, especially of old growth, large diameter trees. This, coupled with reduced harvests on private lands due to past over-cutting, makes the timber shortage a long term problem.

For many firms the only options are to shut down, or spend heavily to retool existing mills or replace them with new automated mills which can process smaller, second-growth logs for domestic and foreign (i.e. metric) markets. In most cases, this translates into fewer timber industry jobs. In view of these trends, it is not surprising that there have been a growing number of announcements recently of upcoming mill closures and layoffs (some of indefinite duration, others permanent), new capital investments, and labor disputes. In January, for example, a major strike began affecting over 3,000 wood products workers in Southern Oregon. According to recent projections by the Oregon Executive Department, lumber and wood products will be one of the few industries showing a decline in annual average employment in 1989 (-1,800 or 2.7%). Unfortunately, the associated rise in unemployment in these mostly rural areas will tend to be structural in nature and relatively long term.

Oregon's high technology manufacturing industries may also show a schizophrenic personality in 1989. On the plus side, the state's high tech firms are mainly producer-goods oriented. Their products are purchased by other

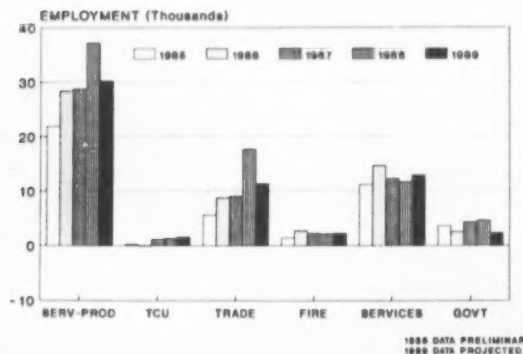
businesses to improve overall efficiency, and many are also exported. In addition, Oregon continues to benefit from Japanese investment in new and expanded high tech plants, mostly in the Portland area. Significant expansion plans are also underway at some domestic firms, although employment impacts will be mostly on the construction industry initially.

On the minus side, corporate restructuring and layoffs which have plagued some of the older established electronics companies may not yet be over. Other downside factors include an expected slowdown in defense spending and sluggish demand for semiconductors. On balance, job gains in electronic equipment and supplies should exceed any further declines in instruments and related products.

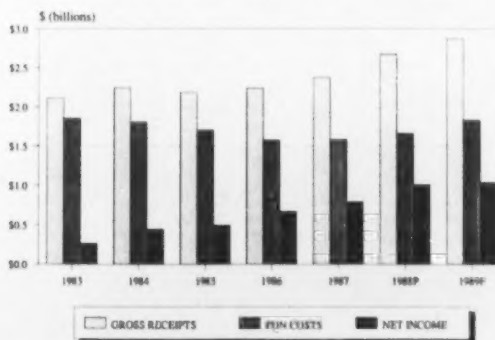
For other manufacturing industries in Oregon 1989 should be another good year, especially for those in export-related and capital equipment lines. The current strong momentum, however, is likely to lose some steam by the end of the year as the national economy winds down. Employment in the highly seasonal food products industry may even decline if processors accelerate the installation of automated equipment in light of demographic trends and potential shortages of young, entry-level workers in the next few years.

Another goods-producing industry that will fare well this year despite rising interest rates is construction. Oregon's strong economy and population immigration will keep both residential and nonresidential construction growing contrary to the national trend. Most of the strength will be in the nonresidential area where many commercial, industrial and public facilities projects are already underway.

ANNUAL EMPLOYMENT CHANGE IN OREGON SERVICE-PRODUCING INDUSTRIES



OREGON FARM INCOME SITUATION RECEIPTS, EXPENSES, AND NET FARM INCOME



SOURCE: 1984-87 USDA, ERS; 1988 projections, 1989 forecast

In the past five years, eight of every ten new jobs came in the service-producing industries. This is likely to rise to nine out of ten this year mainly due to job losses in the lumber and wood products industry, continued population immigration, and slower growth in the state's cyclical industries. Services and trade will, as usual, account for the vast majority of the new jobs.

Employment expansion in trade was exceptionally strong last year as many new stores opened and the state enjoyed another record year for tourism. Trade gains in 1989 are likely to be less robust for several reasons. These include slower consumer spending, higher interest rates and inflation, stiff retail competition, potential labor shortages, and prospects of a higher minimum wage. Tourism-related businesses are likely to have another good, if not record, year but a tight labor market will mean even higher employee turnover and wage costs.

Service industries, especially business and health services, are either recession-proof or among the last to be impacted by an economic slowdown. Shortages of professional/technical workers (registered nurses for example) and even some lesser skilled service workers (e.g. in food services) are likely to become a growing problem in 1989, adding upward pressure to labor costs.

Employment gains in the government sector will get a temporary boost from the 1989 legislative session but government will still have the slowest growth rate of the service-producing industries. The federal budget deficit and state spending limitation will continue to be limiting factors. Many local government jurisdictions in Oregon have been benefitting from the record levels of timber

harvested from federal lands (25 to 50 percent of gross harvest receipts are returned to local governments to fund schools, road construction and maintenance, etc). Although many local governments are generally in good shape, their revenues could be reduced significantly after 1989 if timber harvest levels drop sharply under new forest management plans and if there is an adverse change in the current formula for allocating federal timber harvest receipts to counties. An expected increase in federal income taxes beginning next year coupled with a much weaker economy could also make it more difficult to pass local property tax levies.

The outlook for Oregon's very diverse agricultural sector is looking stronger at a time when the overall economy is beginning to weaken.

And finally, the outlook for Oregon's very diverse agricultural sector is looking stronger at a time when the overall economy is beginning to weaken. Net farm income soared last year due to strong export sales and high commodity prices associated with the severe drought in the Midwest. In 1989, net income is expected to remain at or slightly above last year's high level as exports and commodity prices stay strong while production costs rise and government price support payments decline. This rosy outlook assumes that agricultural trade disputes, such as the one recently between the U.S. and Europe over hormone-treated U.S. beef, will be resolved without adopting restrictive trade policies. It also assumes that Oregon will be drought-free this year.

Since foreign trade is becoming increasingly important to Oregon's as well as the nation's economy, some mention should be made of the likely impact from the new U.S.-Canadian Free Trade Agreement which took effect this January. Perhaps the best assessment at this time is that it's just too early to tell. For the state's primary industry, lumber and wood products, the Agreement will probably have little, if any, effect. This is the view of **Random Lengths Export** editors (a Eugene-based timber industry newsletter) who state in their January 5, 1989 issue: "The U.S.-Canadian free trade agreement (FTA) should have little impact on wood products because the concerns of the U.S. industry were addressed outside of the agreement. The U.S. Congress did not consider the FTA until the two countries had reached an agreement on softwood lumber, which resulted in a combination of export taxes and higher Canadian stumpage prices. U.S. plywood producers were successful in making the development of a common product standard a condition of eliminating plywood tariffs."

In summary, Oregon should enjoy a seventh year of economic expansion, although rising inflation and more restrictive national economic policies will begin to exert a drag on the economy. Foreign trade, capital goods manufacturing, construction, services and even agriculture will fare the best. The weakest link, unfortunately, is Oregon's number one industry, lumber and wood products, which faces a growing cost-price squeeze and shortage of available timber supplies. Although unemployment will reverse direction and begin creeping higher in 1989, especially in timber-dependent rural areas, the next recession, at least for Oregon, is not yet in sight. □

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